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ECONOMIC FORECASTING CENTER

MONTHLY PROJECTIONS
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HAS THE INFLATION WAR BEEN WON?

Following the slowdown to 0.4% in the PPI for March and the 0.5% increase in the CPI for the same month, some Wall Street analysts have already declared that the inflation war has been won by the Federal Reserve. Is this a shrewd analysis of developing economic trends or is it an Aikenism. (During the Vietnam conflict, Senator Aiken from Vermont declared that we could solve the Vietnamese problem by merely declaring that we had won and then get out.)

Certainly, economic growth has slowed in recent months. February's slowing was the result of shifting seasonal patterns, but the persistence of economic slowing in March clearly indicates that high interest rates are beginning to slow several sectors of the economy. First, housing activity has slowed significantly, with March permits declining to a level consistent with only 1.3 million starts. Housing starts almost certainly will average less than 1.4 million this year. Second, high interest rates are beginning to shift the savings desires of consumers. Consumer durable spending other than for automobiles is slowing while automobile sales require incentives to maintain previous-year levels. Third, the restrictive monetary activity has led to a relatively strong dollar. This in turn has begun to slow export growth and encourage further import activity. Thus, trade balances appear to be stalled at more than $10 billion deficits per month.

These sources of reduced growth or absolute decline cannot be offset by modest inventory accumulations and continued significant growth in capital

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spending. Certainly, there is not enough government spending growth to offset this slowing. Therefore, economic growth probably will fall well below the 2.5% growth path dictated by the Federal Reserve by the second half of this year. As the Federal Reserve almost certainly will be able to accomplish its growth objectives during the latter half of this year, some analysts have assumed that monetary ease is now appropriate.

However, such a conclusion assumes that achieving the Federal Reserve target on economic growth will also achieve the Federal Reserve desires to slow inflationary pressures. Eventually, slow economic growth will lead to rising unemployment, slower wage growth, and slower inflation. However, initially, inflationary forces can continue to intensify. Thus, in order to achieve an objective of preventing inflation from exceeding 5% at annual rates, more stringent monetary activity is necessary. In short, the casualties to economic growth are growing but the victory over inflation is no where in sight.

Indeed, after adjustment for pecularities in the PPI index, the March figures do not really indicate a slowing of inflationary pressures in the commodity markets. When the surprising 1.0% increase in the January PPI was reported, it was noted that seasonal adjustment changes added 0.4 percentage points to this January's index relative to previous years. In March, the seasonals were expected to reduce price pressures by 0.2 percentage points. Indeed, at that time, we remarked that it would truly be surprising if inflationary pressures moved from a measured 12% annual rate in January to only a 2% annual rate by March.

Of course, a continuation of 1.0% gains in February seemed to imply that a ratcheting up of inflation actually occurred. Instead, measurement problems associated with fruits and vegetables may have added as much as 0.3 percentage points to the February finished goods index. In March, with both a reversal of the fruit and vegetable problems and an adjustment to the January excessive seasonal factors, the market should have been surprised if a dramatic slowing in the PPI did not occur. Unfortunately, until the oil price increases run their course, commodity inflation probably is in excess of 6% at annual rates. Thus, some acceleration of PPI increases almost certainly should occur during the next several months.

As for the slowing in the CPI, only the sharp price decline in house furnishings gave any inkling that economic slowing was leading to slower inflationary pressures. Of course, rising egg prices, that led to sharp price increases in the foods, should not persist. Also, clothing prices will not rise sharply after April. Indeed, if patterns of the past two years continue, clothing prices could decline in June and July. Also, new auto incentives should lower prices for automobiles and also for automobile financing during April. On the other hand, the March CPI was only consistent with $16 oil. With wet barrels of oil selling in excess of $23 following the Alaskan oil spill and the explosion in the Brent fields, a 20% increase in gasoline prices from March levels could develop. Surveys by AAA and Lundberg indicate that 15¢ of that increase may have developed in April alone. If so, the gasoline component of the CPI will contribute almost 0.5 percentage points to that month's index. Another 0.1 to 0.2 percentage points probably will surface in May. Thus, stronger consumer price increases are expected for several more months.

Of course, it is easy to declare that one-time oil price changes are generating these price increases. Thus, they are having little effect upon underlying inflation. When the oil price pressures ease later this year, inflation rates should move toward their basic trend path. Such an argument is partially valid, but the trend inflation rate is not totally independent of food and energy price changes. If strong food and energy price increases persist, purchasing power will erode just as if the price increases were in clothing, drugs, or other CPI components. Moreover, gasoline and food more readily add to inflationary fears than other price changes. Thus, the inflationary expectations that drive wage demands almost certainly will be altered by this first-half explosion of energy prices. This, in turn, will lead to accelerating hourly earnings and rising wage costs. By the time commodity inflation slows to less than 5% rates of increase later this year, hourly wage increases probably will be accelerating to more than 5%.

Moreover, the slow growth engineered by the Federal Reserve almost certainly will slow productivity performance. Thus, unit labor costs probably will also be growing in excess of 5%. Before year-end, service inflation could be moving toward 6% rates of gain.

Moreover, the unemployment rate will be slow to rise. As a result, other laborers will try to repeat the wage performances that currently are being achieved in the service economy. Union wages, which have actually aided the moderation of wage inflation should accelerate significantly as the copper and then steel industries negotiate in the late spring and early summer months. In short, if underlying inflation can be approximated by a four-quarter moving average of unit labor costs, that inflationary measure will not reach its peak until late this year or early in 1990. The only way to get a significant slowing in inflation before then is to actually reverse commodity inflation, causing it to fall later this year.

Certainly, a substantial economic correction could do just that. In addition, if the oil cartel falls apart, falling oil prices could greet us in the fall just as rising oil prices were catapulted by the spring. However, any movement toward monetary ease at the present time would not create such a collapse in commodity prices. Moreover, world oil demand is now rising faster than world growth, a condition that did not previously occur since 1972. A collapse in the oil cartel is not likely under such conditions.

Of more significance is the absence of any signs that commodity inflation is even slowing after excluding food and energy. Sensitive crude prices excluding food and energy accelerated by more than 2% in the March PPI report. The Journal of Commerce indicators, which include oil but also measure other industrial materials as well, have reached new highs in recent days. Even without the influence of oil, those sensitive prices would be rising.

Of course, the Wall Street analysts may be missing this continuing strength in commodity prices because they are looking at the CRB index. That index is heavily weighted by animal and grain prices. Slaughters have increased in the Midwest as a result of further drought fears. As a result, livestock prices temporarily are falling. At the same time, a significant increase in agri-

cultural acreage is raising prospects that grain prices may not rise significantly this year. If so, basic foodstuff prices may stabilize. Eventually, this could lead to stability in meat prices and a return to the 3% to 5% price increases that grocery store prices have experienced until last year's drought. However, such food price relief is not likely to be significant until next year.

Thus, the war against inflation has not been won. Indeed, if the dollar plummets sharply when foreign investors discover that interest rates and monetary restraint no longer are expected to intensify here even as they are starting to rise abroad, greater inflation could develop. Those declaring that the war was won may cause a shift in policy that could assure that the war is lost.

Obviously, this reasoning suggests that financial markets have become too exuberant. Stock prices in particular appear to be especially vulnerable. They are assuming that inflation will slow without damaging revenues as much as restraining cost pressures. In reality, the price lags are just the reverse. For that reason, corporate profitability almost certainly is being grossly exaggerated on current analysts' sheets. When this becomes obvious, a stock market correction appears to be inevitable.

However, even a correction in the bond market could develop. While interest rates probably will decline in 1990 after the economic slowing finally leads to sufficient increases in unemployment to stall further wage growth, the initial response to increasing inflationary measures in April and May could be a sign of panic. Thus, the long bond could very well rise sharply by more than a half percentage point during the next few weeks. Certainly, anyone who remembers bond trading during the quarterly funding the previous several Mays should be quite happy to take profits under current conditions.

Quarterly Profile of GNP

	1988-4	1989-1	1989-2	1989-3	1989-4	1990-1	1988 Annual	1989 Annual
Real:	2.4	5.1	2.0	2.6	1.9	1.5	3.9	3.0
Price:	5.3	4.7	5.1	4.8	4.6	4.9	3.5	5.0
Nominal:	7.8	9.9	7.3	7.5	6.6	6.5	7.5	8.1

Monthly Statistical Highlights

	March 1989	April 1989	May 1989
Payroll Employment		+200,000	+227,000
Index of Hours Worked		+0.2%	+0.1%
Household Employment		+207,000	+254,000
Civilian Unemployment Rate		5.1%	5.0%
Personal Income	-0.1%	+0.6%	+0.5%
Savings Rate	5.5%	5.2%	5.3%
Personal Consumption	+0.4%	+1.0%	+0.5%
Retail Sales		+1.6%	+0.2%
Auto Sales		10.5*	10.2*
Housing Starts		-3.1%	-1.8%
Housing Permits		+1.3%	-0.1%
Construction Expenditures	-1.9%	-2.6%	-1.4%
Business Inventories	+0.4%	+0.5%	+0.5%
Orders for Durable Goods	+1.5%	-0.5%	-0.4%
Orders for Nondefense Capital Goods	+4.7%	-3.9%	-0.6%
Industrial Production		+0.2%	+0.2%
CPI		+0.9%	+0.6%
PPI		+0.7%	+0.4%
Consumption Deflator	+0.4%	+0.5%	+0.5%
Leading Indicators	-0.3%	-0.4%	+0.2%
Currency Index		+0.7%	-1.2%
Equity Index		+3.4%	-2.6%
Real GNP (annual rate)	+2.4%	+0.3%	-0.9%
M1 (annual rate)		-2.7%	+2.5%
M2 (annual rate)		+3.6%	+5.2%

* auto sales in millions

Commentary

Employment - The March employment report indicated that economic activity remained sluggish. The index of hours worked showed minimal increase while construction employment fell by 50,000. Thus, weakness in housing starts and in industrial production was appropriately anticipated by the employment report. However, the unemployment rate was not reversed. In fact, a 0.3 percentage point decline in the unemployment rate of adult males caused overall unemployment to fall to 5.0%. A significant slowing in the labor force caused this dip in unemployment. Apparently, less than 200,000 growth in payroll employment will be sufficient to sustain the unemployment rate. In order to create some slack in the labor markets, growth would have to slow significantly.

Thus, hourly earnings probably will continue to exert upward pressure until the economy has slowed to a rate even below the Federal Reserve target range. Moreover, the unemployment rate probably will slide further, although some increase in April appears to be likely.

Hourly earnings grew more than 4.5% at annual rates in March but only increased at a 3.9% annual rate over the past three months. Further acceleration is anticipated in that area. Although the diffusion index did not show recessionary behavior, only 57% of all industries reported employment gains, a figure usually associated with only sluggish growth.

Personal Income and Outlays - Farm subsidies should weaken in March. In addition, the slow growth in payroll employment should generate only a 0.6% increase in wage earnings. Although interest income should continue to grow rapidly, overall personal income could be unchanged in March. The savings rate almost certainly will not be up as sharply as in February, when rising farm subsidies substantially added to personal savings. However, savings in excess of 5% should persist through much of this year.

March retail sales were exceptionally sluggish, as only food and gasoline showed any appreciable increase. These certainly reflected price increases during the month. However, the seasonal adjustments for an early Easter are notoriously unreliable. Typically, sales are expected to be the same on Easter week whether it is early or late. However, more sales normally occur on a late Easter than on an early Easter. For that reason, the seasonal adjustment factors tend to understate retail sales for an early Easter and then overstate them the next month. That pattern appears to be developing again this year. Also, the automobile incentives are having some effect on auto sales in April. Although price concessions are generating the sales, the elasticities are substantially greater than one. Thus, some dollar increases should be anticipated. Coupled with dramatic increases in gasoline prices and continued modest increases in food prices, a substantial surge in nondurable sales is anticipated. Further declines are possible in non-auto durables, especially as home remodeling and household furnishings could be weakening. Nevertheless, retail sales should show a sharp improvement from relatively sluggish March levels.

If the surge in retail activity develops, consumer spending should rebound sharply in April and during the second quarter. After minimal growth in consumer spending during the first quarter, consumption could grow about 2.5% after adjustment for inflation in the second quarter.

Construction - The drop in housing permits during March was widespread and suggests that housing starts will be well under 1.4 million for the remainder of this year. Indeed, if permits do not rebound in April, they will be consistent with single-family starts of less than 950,000. Multi-family starts also appear to be well under 400,000. Slower housing activity should begin developing as early as March with some weakness anticipated in the nonresidential area as well. Construction spending is expected to dramatically slow over the next six months. On the other hand, construction spending in February was surprisingly strong. Perhaps a significant downward revision in that data may develop.

Although the construction cost index rose slightly in February, it has moved little over the past six months. Some acceleration is anticipated later in the year, but weakness in housing activity almost assures that construction material prices will not be rising. Moreover, construction workers probably will have relatively modest wage increases in this recessionary environment.

Business Activity - Although hours worked in durable goods industries suggest little improvement in durable goods orders, large orders for commercial aircraft and a buildup in orders for primary metals in anticipation of work stoppages later in the year should generate a rebound in that area after two monthly declines. The gap between orders and shipments for nondefense capital goods is so large that a significant expansion in shipments should persist the entire year. As a result, capital spending programs almost certainly will be growing 6% to 7% in real terms.

The one surprise in business activity was the two consecutive months of no change in industrial production. Auto assemblies are at 7.1 million units, about in line with sales when incentives are in place. Some further declines should occur in the summer but not before. Industrial material production almost certainly will rise, especially as copper and steel try to stockpile prior to difficult labor negotiations. Capacity utilization has slipped from previous peaks, causing relief from inflation fears. Such relief clearly is justified, but lags in response to slowing economic activity are too long to provide relief as quickly as financial markets currently expect.

Prices - A surge in gasoline prices will dramatically effect the CPI and will also have a moderate effect upon the PPI for finished goods in April. Indeed, both indices almost certainly will be growing more rapidly than in March. The consumer deflator also should show a significant leap upward while prices of consumer nondurables should surge.

Miscellaneous - Even without higher oil prices, the merchandise trade balance would have difficulty significantly declining. Strong growth in capital spending, where 35% of all spending is produced abroad, and the capacity constraints of export-oriented industries assures a dramatic slowing in the improvement in trade balances. When oil price increases are added, deterioration even further than currently projected is possible. Indeed, a shift to $18 oil in April and 260 million barrels could cause the trade deficit in that month to balloon in excess of $12 billion.

The leading indicators almost certainly will now be dropping as a result of this sharp decline in building permits, although orders may blunt the degree of decline. Certainly, falling equity values will also be adding to the decline in leading indicators. Equity prices rebounded in April as a result of diminishing inflationary fears. As indicated above, these easing fears are not justified and the equity markets should soon readjust for that inappropriate anticipation.

Corporate profits should hold up nicely during this period of accelerating inflation, but a significant portion of the gains will be in the petroleum industry. The increased concentration of profits is not as favorable as a

broader-based growth of profitability. This also should put downward pressures upon equity values. The currency index may temporarily slip as a result of lessening inflationary fears at home along with tightening monetary policy abroad. However, when bad inflation numbers are again reported in the next few months, the index should again firm. The dollar then would start to fall under unfavorable trade balances and economic weakening later in the year.

It should also be noted that a significant surge in IVA associated with sharp increases in prices of energy materials should now be anticipated. This could lead to inappropriate profit earnings and an incorrect evaluation of inventories as a result of the surge in inventory profits. Initially, stock market values are unable to determine the deteriorating quality of earnings. By summer, however, such a deterioration should be obvious to most analysts.

Financial Markets

Household savings are continuing to grow as a result of the rebound in farm income and sharp growth in interest income. There may also have been a shift in the desired savings schedule. However, household savings are not expected to grow significantly from here.

The government sector is expected to continue running deficits in the $165 billion range for the next several months. Some lessening in those government deficits are likley later in the year, especially after the beginning of the next fiscal year as a result of restraints in defense spending. Next year's deficits should be in the vicinity of $145 billion. Thus, some moderation in government needs for funds could aid in a slight easing of interest rate pressures later this year.

Unfortunately, the surge in the IVA means a significant increase in corporate borrowings for inventory purposes. These borrowing pressures should become substantial late in the spring and early in the summer months. If so, credit market pressures could intensify signficantly. Corporate cash flows still are strong, but the rise in interest borrowings probably will exceed the growth in cash flow. Thus, increased corporate borrowings from the credit markets appear to be likely later in the quarter. This should also coincide with an unexpected surge in loan activity at banks. If so, some further upward pressures upon interest rates should be anticipated within the next few months.

Currently, foreign investors are reassessing their desires to provide funds to the U.S. markets. The dollar may have reached a peak at 1.90 D-mark. Furthermore, interest rate differentials are narrowing. This could create reduced capital flows from foreign investors. If so, the next quarterly funding could be surprisingly poorly supported by foreign investors. Such an outcome could lead to another May massacre in the long-term government bond. At any rate, upward pressures by the corporate sector and diminished attractiveness of American assets by foreign investors should lead to some upward pressures on interest rates late in the spring and in the early summer months. Economic weakness then could generate reduced corporate borrowing needs and a lessening of short-term interest rate pressures before the end of the year.

Equity Markets - The equity markets currently are anticipating the best of all worlds. While corporate profitability is expected to remain high, Federal Reserve restraint is expected to head off wage demands before they intensify. As a result, the profit margin-enhancing programs that have temporarily increased corporate profitability are assumed to remain intact. This wishful thinking certainly will not be realized. Therefore, if interest rates rise again, as anticipated here, the stock market is vulnerable to a significant downside correction. The increase in program trading merely increases the volatility of the market. Indeed, patterns similar to the summer of 1987 appear to be developing in stock market trading. No one is concerned because the increased volatility currently is on the upside.

Although oil servicing companies should be accumulated and some of the holders of oil reserves also should do well in the economic environment that currently is developing, a significant correction in the equity markets currently is anticipated. Thus, significant profit-taking probably will prove to be beneficial at the present time.

EMPLOYMENT

	Payroll Employment		Index of Hours Worked		Household Civilian Employment		Civilian Unemployment Rate		Hourly Earnings	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1988	106973	106973	127.1	127.1	115573	115573	5.3	5.3	9.43	9.43
November	107377	107419	127.0	127.1	115947	115947	5.4	5.4	9.42	9.42
December	107656	107641	127.1	127.2	116009	116009	5.3	5.3	9.44	9.45
January 1989	108026	108065	127.6	128.3	116435	116711	5.3	5.4	9.50	9.49
February	108277	108345	128.0	127.8	116700	116853	5.2	5.1	9.55	9.50
March	108526	108525	128.4	127.9	116965	117136	5.2	5.0	9.60	9.54
April	108753	108725*	128.7	128.2*	117168	117343*	5.1	5.1*	9.63	9.58*
May	108960	108952	129.0	128.4	117381	117597	5.0	5.0	9.66	9.61
June	109165	109150	129.2	128.6	117592	117811	5.0	5.0	9.68	9.66
July	109328	109376	129.4	128.9	117746	118050	5.0	4.9	9.72	9.70
August	109555	109574	129.7	129.1	117980	118243	5.0	4.9	9.77	9.73
September	109784	109715	129.9	129.2	118221	118409	4.9	4.9	9.81	9.77
October	109938	109828	130.0	129.3	118403	118529	4.9	4.9	9.85	9.82
November	110037	109979	130.2	129.5	118559	118701	4.9	4.8	9.90	9.86
December	110235	110111	130.3	129.6	118716	118837	4.9	4.8	9.95	9.90
January 1990	110423	110185	130.6	129.6	118914	118914	4.8	5.0	9.99	9.94
February	110617	110327	130.8	129.7	119151	119070	4.8	5.1	10.04	9.99
March	110809	110468	131.1	129.8	119362	119211	4.9	5.1	10.09	10.03

PERSONAL INCOME

	Personal Income		Wage & Salary		Personal Savings		Disposable Income		Personal Outlays	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1988	4.184	4.178	2.512	2.508	182.9	174.0	3.587	3.583	3.404	3.409
November	4.175	4.170	2.520	2.516	153.3	150.1	3.577	3.573	3.423	3.423
December	4.196	4.201	2.522	2.530	157.6	150.4	3.598	3.600	3.440	3.449
January 1989	4.223	4.273	2.543	2.550	167.9	198.3	3.620	3.660	3.452	3.462
February	4.272	4.315	2.571	2.573	189.6	219.6	3.664	3.700	3.474	3.480
March	4.320	4.313*	2.599	2.588*	206.3	203.5*	3.702	3.696*	3.496	3.493*
April	4.343	4.341	2.608	2.606	200.6	194.4	3.719	3.720	3.518	3.526
May	4.366	4.364	2.617	2.620	196.7	198.5	3.734	3.741	3.537	3.543
June	4.389	4.392	2.626	2.639	197.3	206.7	3.750	3.765	3.553	3.558
July	4.412	4.420	2.645	2.658	197.1	213.7	3.773	3.790	3.576	3.576
August	4.434	4.441	2.665	2.671	199.8	205.6	3.797	3.807	3.597	3.601
September	4.456	4.465	2.686	2.686	201.8	205.1	3.820	3.827	3.618	3.622
October	4.479	4.490	2.699	2.703	195.3	208.5	3.835	3.848	3.640	3.639
November	4.501	4.514	2.712	2.720	192.7	204.3	3.852	3.868	3.659	3.664
December	4.523	4.536	2.725	2.734	191.1	198.4	3.868	3.886	3.677	3.688
January 1990	4.552	4.547	2.744	2.747	194.2	191.7	3.895	3.899	3.701	3.707
February	4.582	4.574	2.764	2.764	202.5	194.9	3.926	3.925	3.724	3.730
March	4.613	4.598	2.785	2.779	209.4	200.4	3.953	3.946	3.744	3.746

Fore. = February Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

CONSUMPTION

	Personal Consumption		Durables		Nondurables		Services		Consumption Real	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1988	3302.9	3307.0	452.0	453.3	1071.3	1071.3	1778.8	1782.4	2613.6	2616.9
November	3321.6	3320.3	453.6	458.7	1077.4	1080.9	1782.6	1780.7	2617.9	2623.5
December	3335.8	3346.0	472.1	480.2	1076.9	1069.4	1795.5	1796.4	2635.4	2634.6
January 1989	3349.1	3357.9	460.7	461.1	1080.5	1088.1	1807.6	1808.6	2628.8	2627.2
February	3371.0	3375.7	463.5	459.7	1085.6	1089.0	1821.9	1827.0	2637.7	2636.6
March	3391.9	3387.6*	466.5	458.9*	1090.8	1092.3*	1834.6	1836.4*	2643.7	2634.9*
April	3414.1	3420.1	470.2	469.8	1097.4	1104.0	1846.5	1846.3	2646.6	2646.7
May	3432.5	3436.4	472.4	466.6	1101.3	1111.9	1858.5	1857.9	2648.5	2646.4
June	3447.4	3451.6	471.6	465.4	1105.5	1116.6	1870.3	1869.6	2647.8	2647.8
July	3470.1	3469.0	474.3	464.8	1113.4	1123.0	1882.4	1881.2	2655.0	2650.1
August	3490.9	3493.4	476.8	471.5	1118.6	1127.6	1895.5	1894.3	2662.8	2658.3
September	3511.4	3513.2	479.3	473.5	1123.9	1133.0	1908.2	1906.7	2670.3	2663.9
October	3532.3	3530.1	481.5	473.9	1130.1	1137.9	1920.7	1918.3	2671.9	2665.3
November	3551.1	3553.7	483.3	479.3	1134.0	1143.3	1933.8	1931.1	2672.0	2672.0
December	3567.9	3576.9	483.3	483.4	1138.0	1149.0	1946.6	1944.5	2672.6	2678.2
January 1990	3591.6	3595.9	486.5	484.5	1146.2	1153.2	1958.9	1958.2	2680.3	2680.7
February	3614.0	3618.1	489.4	487.6	1151.9	1159.0	1972.7	1971.5	2687.0	2687.2
March	3633.8	3633.0	490.2	483.9	1157.5	1164.4	1986.3	1984.7	2691.7	2686.8

RETAIL SALES

	Retail Sales		Non-Auto Durables		Auto (Million Units)		Nondurable Sales		Auto Sales	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1988	136.56	136.56	20.90	20.90	9.8	9.9	85.36	85.36	30.30	30.30
November	137.81	137.87	21.10	21.10	10.2	10.2	85.80	85.80	30.91	30.91
December	138.03	137.86	21.51	21.79	11.7	11.6	85.70	85.24	30.82	30.83
January 1989	138.04	140.04	21.27	22.62	9.9	9.8	86.04	86.23	30.73	31.19
February	138.77	139.26	21.16	22.46	10.3	9.9	86.45	86.37	31.16	30.43
March	139.52	139.42	21.13	22.40	10.7	9.6	86.86	86.63	31.53	30.40
April	140.47	141.61*	21.58	22.28*	10.6	10.5*	87.39	87.56*	31.50	31.77*
May	141.03	141.87	21.57	22.36	10.7	10.2	87.70	88.19	31.76	31.32
June	141.27	142.11	21.65	22.25	10.6	10.3	88.03	88.56	31.59	31.30
July	141.50	142.55	21.88	22.37	10.2	10.2	88.66	89.07	30.96	31.11
August	142.90	143.68	22.24	22.52	10.5	10.5	89.08	89.43	31.58	31.73
September	143.60	144.67	21.99	22.65	10.8	10.8	89.50	89.86	32.11	32.16
October	144.34	144.77	22.38	22.69	10.1	10.1	89.99	90.25	31.97	31.83
November	144.86	145.83	22.23	23.02	10.3	10.2	90.30	90.68	32.33	32.13
December	145.18	146.75	21.80	22.86	10.6	10.4	90.62	91.13	32.76	32.76
January 1990	146.19	147.20	22.33	22.85	10.5	10.4	91.27	91.46	32.59	32.89
February	146.97	148.02	22.56	22.97	10.6	10.5	91.73	91.92	32.68	33.13
March	147.49	148.03	22.70	23.11	10.5	10.1	92.17	92.35	32.62	32.57

Fore. = February Forecast
C.E. = Current Expectations
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CONSTRUCTION

	Housing Starts		Single Family Starts		Housing Permits		Construction Expenditures (Current)		Construction Expenditures (Real)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1988	1.542	1.532	1.112	1.136	1.516	1.516	407.8	407.7	349.8	349.8
November	1.563	1.567	1.151	1.138	1.517	1.516	411.1	411.5	352.6	353.0
December	1.506	1.577	1.121	1.141	1.502	1.566	408.2	421.0	349.2	360.6
January 1989	1.490	1.678	1.095	1.199	1.473	1.507	410.3	422.8	350.4	363.1
February	1.443	1.476	1.063	1.034	1.416	1.415	409.8	423.0	349.7	362.8
March	1.405	1.397	1.032	0.994	1.372	1.221	409.4	415.1*	348.7	355.7*
April	1.457	1.354*	1.056	0.976*	1.375	1.237*	409.3	404.3	348.0	345.9
May	1.490	1.329	1.084	0.954	1.413	1.235	409.5	398.6	347.3	341.0
June	1.466	1.317	1.055	0.962	1.392	1.206	409.3	397.0	346.6	339.0
July	1.438	1.319	1.037	0.955	1.375	1.229	411.9	397.7	347.9	339.0
August	1.414	1.327	1.025	0.943	1.356	1.243	413.2	399.0	347.8	339.3
September	1.423	1.321	1.011	0.927	1.364	1.235	414.4	398.2	347.7	338.0
October	1.425	1.345	1.020	0.951	1.343	1.246	414.3	401.7	346.7	340.4
November	1.413	1.355	1.012	0.956	1.327	1.262	414.6	402.5	346.1	340.5
December	1.414	1.398	1.018	0.992	1.330	1.295	414.5	406.4	344.8	343.0
January 1990	1.369	1.387	0.984	1.003	1.306	1.273	414.9	407.5	344.0	343.3
February	1.358	1.401	0.976	1.012	1.298	1.296	416.1	408.8	343.9	343.5
March	1.345	1.411	0.968	1.015	1.299	1.305	417.4	408.8	343.5	342.7

	Non-Residential		Public Construction		Residential Construction	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1988	130.9	130.7	77.9	77.0	199.0	200.0
November	129.7	131.7	80.9	79.2	200.4	200.6
December	128.4	133.9	79.5	85.4	200.3	201.7
January 1989	128.8	136.7	81.0	82.1	200.5	203.9
February	128.4	136.8	80.6	82.7	200.8	203.4
March	127.8	134.2*	81.5	82.3*	200.1	198.6*
April	128.3	133.7	81.7	82.8	199.3	187.8
May	128.8	131.6	82.0	83.4	198.7	183.6
June	129.2	131.7	82.0	83.6	198.1	181.7
July	129.5	132.2	82.5	84.1	199.9	181.4
August	129.8	132.7	82.6	84.5	200.8	181.8
September	130.1	132.5	82.8	84.9	201.5	180.8
October	130.4	133.1	83.0	85.3	200.9	183.3
November	130.6	133.6	83.2	85.0	200.8	183.9
December	130.9	134.2	82.8	85.3	200.8	186.9
January 1990	131.5	134.3	83.5	85.5	199.9	187.7
February	132.3	134.7	84.2	85.8	199.6	188.3
March	133.1	134.9	84.9	85.5	199.4	188.4

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BUSINESS ACTIVITY

	Manufacturers' Inventories		Durable Goods Orders		Non-Defense Capital Goods Orders		Non-Defense Capital Shipments	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1988	349.4	349.4	122.79	122.79	34.62	34.62	32.69	32.60
November	350.9	351.6	122.77	123.04	35.67	35.83	32.43	32.51
December	352.4	354.2	121.85	132.15	34.23	39.43	32.47	32.68
January 1989	354.3	357.3	123.74	128.48	34.93	40.35	32.96	33.33
February	356.8	359.1	122.19	124.20	33.67	37.06	33.02	33.34
March	359.2	361.3*	122.85	126.06*	33.84	38.80*	33.10	33.92*
April	361.5	363.6	123.75	125.43	34.26	37.29	33.43	34.16
May	363.6	366.9	123.14	124.89	34.05	37.05	33.88	34.12
June	365.8	370.1	123.67	125.13	34.35	37.36	34.25	34.31
July	367.9	373.4	124.51	125.01	34.97	37.15	34.56	34.53
August	369.5	375.8	125.89	126.63	35.37	38.02	34.65	34.79
September	372.3	377.3	125.11	126.17	35.11	37.64	34.47	35.07
October	374.6	379.6	124.48	126.19	34.96	37.85	34.69	35.26
November	376.8	381.2	125.93	126.31	35.22	38.09	34.83	35.43
December	378.9	382.9	126.21	125.53	35.29	37.63	34.98	35.66
January 1990	381.1	384.5	127.72	124.78	35.56	37.46	35.15	35.84
February	382.4	386.6	127.85	124.55	36.42	37.09	35.70	36.05
March	383.7	387.9	127.56	124.67	36.40	37.12	36.28	36.11

	Business Inventories		Defense Shipments		Industrial Production		Capacity Utilization	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1988	751.4	750.6	8.43	8.43	139.3	139.4	84.0	84.0
November	754.4	753.7	8.55	8.66	139.9	139.9	84.2	84.1
December	755.0	756.7	8.63	10.10	140.2	140.4	84.1	84.3
January 1989	760.6	759.8	8.54	8.73	140.8	141.0	84.3	84.4
February	756.5	763.6	8.51	8.44	141.2	141.0	84.4	84.2
March	772.3	766.9*	8.43	8.52*	141.6	141.0	84.5	84.0
April	775.7	770.3	8.50	8.50	142.3	141.3*	84.8	84.0*
May	779.6	773.9	8.55	8.56	142.7	141.6	84.9	84.1
June	783.4	777.1	8.56	8.55	143.2	141.8	85.1	84.1
July	788.1	780.4	8.53	8.62	143.4	142.1	85.0	84.2
August	792.0	784.6	8.55	8.65	143.2	142.3	84.7	84.2
September	795.8	788.1	8.56	8.63	143.5	142.4	84.7	84.1
October	801.1	792.5	8.59	8.78	143.7	142.4	84.6	83.9
November	806.6	798.6	8.61	8.71	143.8	142.6	84.5	83.9
December	812.1	803.5	8.63	8.70	143.9	142.8	84.4	83.9
January 1990	815.3	809.4	8.60	8.73	144.1	142.7	84.3	83.6
February	818.2	815.3	8.65	8.65	144.3	142.9	84.2	83.6
March	821.1	818.2	8.73	8.71	144.6	143.2	84.2	83.7

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PRICES

	CPI-U (seasonally adjusted)		PPI Finished Goods (seasonally adjusted)		PPI-Industrial Commodities (unadjusted)		Estimated GNP Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1988	119.9	119.9	109.5	109.3	107.1	107.1	123.4	123.5
November	120.3	120.2	109.8	109.6	107.4	107.5	123.8	124.0
December	120.8	120.6	110.3	110.0	108.1	108.1	124.2	124.4
January 1989	121.2	121.3	110.8	111.1	108.7	109.1	124.5	125.1
February	121.5	121.8	111.1	112.2	109.0	110.0	124.8	125.3
March	121.8	122.4	111.4	112.7	109.1	110.6	125.1	125.8
April	122.4	123.5*	111.8	113.2*	109.7	111.2*	125.6	126.4
May	122.9	124.2	112.1	113.6	110.2	111.5	126.1	127.0
June	123.3	124.7	112.4	113.9	110.6	111.9	126.5	127.5
July	124.0	125.1	112.8	114.2	111.3	112.3	127.0	128.0
August	124.7	125.6	113.3	114.5	111.8	112.6	127.4	128.5
September	125.4	126.0	113.9	114.9	110.5	110.9	127.8	128.9
October	125.9	126.4	114.4	115.6	111.8	113.5	128.4	129.4
November	126.3	126.9	114.8	115.9	112.1	114.0	128.9	129.9
December	126.7	127.5	115.1	116.3	112.4	114.4	129.5	130.5
January 1990	127.3	128.0	115.6	116.4	113.0	114.6	129.9	131.0
February	127.9	128.5	116.3	116.6	113.6	114.8	130.3	131.5
March	128.5	129.1	117.0	116.9	114.1	115.1	130.7	132.0

	Consumption Deflator		Consumer Durables		Consumer Nondurables		Consumer Services		Implicit Construction Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1988	126.4	126.4	111.0	111.1	118.4	118.4	136.8	136.8	116.6	116.6
November	126.6	126.6	111.1	111.1	118.2	118.2	137.3	137.3	116.6	116.6
December	126.9	127.0	111.8	112.0	118.4	118.4	137.8	137.9	116.9	116.7
January 1989	127.4	127.8	112.0	111.8	118.6	119.2	138.4	138.9	117.1	116.4
February	127.8	128.0	112.3	111.7	118.7	119.5	138.9	139.1	117.2	116.6
March	128.3	128.6*	112.6	111.9*	119.4	120.0*	139.3	139.7*	117.4	116.7*
April	129.0	129.2	112.9	112.1	120.2	121.1	140.0	140.3	117.6	116.9
May	129.6	129.9	113.1	112.4	120.9	121.7	140.8	141.0	117.9	116.9
June	130.2	130.4	113.3	112.7	121.5	122.1	141.5	141.6	118.1	117.1
July	130.7	130.9	113.7	113.0	121.8	122.5	142.1	142.3	118.4	117.3
August	131.1	131.4	114.1	113.3	122.0	122.9	142.7	143.0	118.8	117.6
September	131.5	131.9	114.5	113.5	122.3	123.3	143.3	143.6	119.2	117.8
October	132.2	132.4	114.8	113.9	123.0	123.7	144.0	144.3	119.5	118.0
November	132.9	133.0	115.1	114.2	123.8	124.2	144.7	145.0	119.8	118.2
December	133.5	133.6	115.4	114.5	124.6	124.7	145.4	145.7	120.2	118.5
January 1990	134.0	134.1	115.7	114.8	124.9	125.2	146.0	146.4	120.6	118.7
February	134.5	134.6	116.0	115.2	125.1	125.6	146.7	147.0	121.0	119.0
March	135.0	135.2	116.3	115.5	125.4	126.0	147.4	147.7	121.5	119.3

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MISCELLANEOUS

	Merchandise Trade Balance		Leading Indicators	Estimated GNP		Estimated GNP (1982 $)		IVA (annual rate)	
	Fore.	C.E.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1988	-8.88	-8.88	143.9	4963	4970	4022	4024	-24.4	-20.6
November	-10.18	-10.38	143.9	4984	5001	4026	4033	-20.7	-18.7
December	-9.96	-10.92	144.9	5023	5033	4044	4046	-20.6	-18.3
January 1989	-10.26	-8.67	145.7	5066	5092	4069	4070	-20.1	-20.5
February	-10.72	-10.49	145.2	5085	5112	4075	4080	-21.4	-24.6
March	-10.35	-10.96*	144.8*	5120	5143	4093	4088	-22.7	-27.3
April	-10.11	-10.73	144.0	5153	5169	4103	4089	-21.9	-31.2
May	-10.01	-10.55	144.3	5186	5189	4113	4086	-21.5	-33.5
June	-9.86	-10.26	144.1	5219	5228	4126	4100	-21.3	-27.6
July	-9.95	-9.75	144.3	5237	5265	4124	4113	-25.9	-22.4
August	-9.81	-10.07	144.0	5258	5285	4127	4113	-28.3	-19.3
September	-9.65	-10.23	143.7	5279	5321	4131	4128	-31.0	-15.4
October	-9.55	-9.72	142.3	5305	5347	4132	4132	-27.6	-12.6
November	-9.94	-9.65	142.8	5334	5376	4138	4139	-25.3	-12.9
December	-10.28	-9.43	142.1	5362	5405	4141	4142	-23.1	-16.3
January 1990	-9.79	-9.72	142.3	5390	5440	4149	4153	-29.6	-20.4
February	-9.71	-10.01	142.6	5417	5461	4157	4153	-31.3	-21.2
March	-9.64	-9.56	142.2	5445	5483	4166	4154	-33.0	-20.5

	Currency Index		Adjusted Profits		30-Year Government Bonds		New York Composite	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1988	95.10	95.10	185.4	190.5	8.89	8.89	156 36	156.36
November	91.91	91.91	186.9	189.6	9.02	9.02	152.67	152.67
December	92.65	91.88	177.3	202.8	9.01	9.01	155.34	155.35
January 1989	95.43	95.12	182.2	211.3	8.92	8.93	158.53	160.40
February	97.22	95.77	181.1	207.6	9.03	9.01	161.46	165.08
March	96.25	96.99	179.9	204.3	9.04	9.17	161.06	160.38
April	94.43	97.43*	178.5	200.6	8.86	9.15*	163.49	165.76*
May	93.36	96.25	177.2	197.3	8.73	9.17	162.25	161.46
June	92.71	98.55	175.8	200.5	9.02	9.32	158.07	160.44
July	92.43	98.82	171.2	201.4	9.38	9.36	154.62	159.47
August	92.00	96.67	169.3	197.3	9.53	9.20	151.72	157.93
September	91.66	97.13	167.6	200.2	9.51	9.07	148.85	161.64
October	90.43	96.24	166.8	196.6	9.63	8.83	150.25	162.08
November	86.55	94.63	165.5	197.4	9.69	8.86	149.53	161.19
December	86.92	94.55	164.5	193.3	9.83	8.82	148.86	156.91
January 1990	90.43	92.73	160.2	194.5	9.80	8.69	145.79	159.40
February	91.67	91.85	156.5	189.6	9.79	8.75	144.81	153.06
March	90.25	90.47	153.3	187.2	9.75	8.71	143.78	150.74

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FINANCIAL MARKETS

	Monetary Base		M1		M2		Federal Funds		T-Bills (6 Mos.)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1988	283.3	283.8	783.5	785.4	3037.5	3042.2	8.30	8.30	7.50	7.50
November	285.0	284.6	783.6	786.6	3054.0	3059.3	8.35	8.35	7.76	7.76
December	285.0	285.0	787.5	790.2	3066.2	3069.3	8.76	8.76	8.24	8.24
January 1989	288.6	287.9	789.3	786.3	3075.3	3065.7	9.02	9.12	8.38	8.36
February	291.3	287.5	791.2	787.4	3084.7	3070.0	9.15	9.36	8.53	8.55
March	294.0	288.7	793.1	786.5	3093.2	3081.1	9.24	9.85	8.62	8.85
April	295.2	289.0*	800.2	784.7*	3120.6	3090.2*	9.27	9.83*	8.65	8.62*
May	296.1	290.5	809.5	786.3	3143.2	3103.4	9.23	10.17	8.63	8.63
June	297.0	291.8	818.0	789.2	3166.5	3117.5	9.25	10.26	8.55	8.81
July	298.9	293.1	816.5	791.6	3180.2	3130.2	9.68	10.34	8.76	8.84
August	300.7	294.8	817.6	795.9	3193.1	3146.5	9.79	10.35	8.93	8.82
September	302.5	296.5	818.9	800.8	3207.3	3161.5	9.84	10.26	9.02	8.65
October	304.1	298.2	823.2	805.7	3223.5	3176.3	10.13	10.14	9.15	8.49
November	305.3	300.1	826.8	810.9	3246.1	3192.1	10.23	10.05	9.18	8.26
December	306.5	301.7	830.4	814.9	3269.0	3205.7	10.36	9.78	9.20	8.17
January 1990	308.5	303.4	836.3	819.2	3291.5	3220.2	10.35	9.72	9.17	8.02
February	310.3	305.0	842.8	822.9	3306.8	3233.1	10.38	9.63	9.15	7.98
March	312.1	306.6	848.9	827.5	3320.7	3245.6	10.34	9.52	9.12	7.95

	Aaa (Seasoned)		Municipals (Bond Buyer)		(3 Month) Commercial Paper		90 Day CD's		Prime Rate	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1988	9.51	9.51	7.47	7.47	8.24	8.24	8.36	8.36	10.00	10.00
November	9.45	9.45	7.46	7.46	8.66	8.66	8.78	8.78	10.05	10.05
December	9.57	9.57	7.61	7.61	9.11	9.11	9.25	9.25	10.50	10.50
January 1989	9.58	9.62	7.43	7.35	9.05	9.04	9.15	9.20	10.50	10.50
February	9.50	9.64	7.38	7.44	9.20	9.37	9.29	9.51	10.50	10.93
March	9.46	9.80	7.35	7.59	9.26	9.95	9.35	10.09	10.50	11.50
April	9.40	9.83*	7.31	7.62*	9.38	9.91*	9.43	10.02*	10.50	11.50*
May	9.47	9.86	7.40	7.65	9.35	10.13	9.45	10.24	10.50	11.76
June	9.54	10.02	7.52	7.86	9.40	10.32	9.49	10.40	10.50	12.00
July	9.83	10.05	7.73	7.90	9.65	10.35	9.76	10.43	11.00	12.00
August	9.92	9.87	7.80	7.81	9.76	10.31	9.84	10.40	11.00	12.00
September	10.01	9.53	7.88	7.65	9.86	10.22	9.93	10.36	11.39	12.00
October	10.20	9.46	7.96	7.60	10.15	10.07	10.24	10.20	11.58	12.00
November	10.36	9.49	8.11	7.62	10.24	10.02	10.35	10.11	12.00	12.00
December	10.25	9.52	8.20	7.65	10.35	9.86	10.46	10.01	12.00	12.00
January 1990	10.25	9.39	8.12	7.43	10.33	9.74	10.44	9.86	12.00	11.63
February	10.22	9.44	8.05	7.46	10.36	9.65	10.47	9.79	12.00	11.50
March	10.17	9.40	8.01	7.40	10.38	9.59	10.49	9.71	12.00	11.50

Fore. = February Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.